



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 10/26/2007

**GAIN Report Number:** BU7027

## Bulgaria

## Wine

# The EU wine reform and the Bulgarian response 2007

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**Report Highlights:**

The Bulgarian wine industry is important as a major export earner and as a valuable part of local culinary culture. Most exports are to non-EU countries. The industry has restructured and is expanding fairly rapidly. Producers generally are in favor of the new EC wine reform proposal which is seen as an opportunity for an expansion and fair competition.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Sofia [BU1]  
[BU]

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## Bulgarian reaction to the EU proposed wine reform

The reform of the EU wine regime and EC CMO proposal were warmly welcomed by the Bulgarian wine industry. Although official reactions were limited and obscured by political debates about the grain/feed shortages and skyrocketing staple food prices, the local wine industry was not late to express its satisfaction about the new wine regime.

Currently, Bulgaria produces only 1.1% of EU wine. The country hopes to receive 2% of total EU wine sector budget or 26 million Euro/year, an amount much higher than that earned by the sector prior to the EU membership. Domestic wine industry has the potential to grow and compete if the new CMO wine legislation is able to create a fair and competitive business environment.

The highest local support was expressed for the reforms aimed at abolition of market management measures, stimulation of quality wine production, liberalization of oenological practices and labeling rules, and marketing/promotion funds targeting third country markets. National financial envelopes and rural development measures were also welcome by the industry as providing major sources for investment and domestic support. Overall, the proposed reform was evaluated as an excellent opportunity for the local wine industry to expand and compete on the EU and third markets at equal terms with old producers from traditional wine member states (MS).

Bulgaria is seeking growth and active investment in the modernization of its wine industry. For this reason, some industry representatives disagreed with the restrictions aimed at lower yields and output. Others expressed their concern that the new changes can lead to further enlargement of already big wine producers. Major wine MS may dominate on the EU market, thus making trade in wine produced by smaller countries, with higher diversity of varieties and climate, increasingly difficult.

Below is a summary of local industry response to the proposed reform:

### Abolition of market management measures

None of the aids and/or support proposed for abolishment used to exist in Bulgaria. The system of market management measures in EU-25 was making Bulgarian wine not-competitive with the subsidized EU origin wine. Bulgaria does not produce surplus wine. Therefore, the proposal for reduction in support was welcome by the industry.

### Ban on sugar for enrichment

This proposal was perceived with mixed feelings by the industry. Climate conditions in Bulgaria are similar to those in South Europe and sugar is used mainly in rainy year. Local wineries prefer to have the ability to use sugar for enrichment and are likely join those MS which are against this ban. Manufacturers are concerned that a potential ban will force them to import must from Italy/France/Spain and to invest more in upgrading of vineyards. The official position of the Bulgarian government is against introduction of the ban on sugar for enrichment.

Currently, local legislation allows 2% sugar added to wine. According to Bulgaria–EU Accession Treaty, Bulgaria has the right to use sugar for enrichment in certain regions and in cases of a poor crop.

Grubbing-up scheme

Bulgaria has many vineyards on the national registry which are poorly maintained and abandoned. Grubbing-up scheme can allow farmers to renew the old plantings or to switch to a different crop without financial risks since in both cases the farmer is eligible for a subsidy. Since no such support was existent in the past, grubbing-up scheme offers a good opportunity for more efficient land use to certain farmers. Most likely, farmers will replace the old plantings with new, higher demand varieties, due to good market opportunities. The vineyards ceiling for Bulgaria is 155,800 HA, much above currently used vine area (see production section below).

The official position of the government is that Bulgaria supports the reduction of grubbing-up scheme from 5 to 3 years, and for reduction of vineyard area from 10 to 8 percent. However, the GOB considers that each MS should take its own decision about the details/levels of the grubbing up scheme.

Single payment scheme

This proposal was well perceived since it is simple and easy for farmers, and will not require additional resources for administration and control. As a new MS, Bulgaria uses the same scheme for all other crops.

Ending planting rights restrictions

Country's vineyard ceiling exceeds current vine areas and farmers/wineries are not likely to plant new land plots in the near future. However, the new industry proposal will allow major wineries to expand, increase investment and production efficiency, and be more competitive.

Labeling rules

The new labeling rules proposal was firmly supported by the industry. The proposal was viewed as a long awaited simplification and unification of labels of various categories of wines, providing an understandable and uniform method of presenting consumers with variety and vintage information.

Promotions to third countries

Local wine industry saluted the proposal for a common EU promotional budget of 120 million Euro with 50% co-financing of each MS. According to the Bulgarian wine association, Bulgaria can access 2.5-3.9 million Euro (estimate) from these funds in the period 2009-2015. The funds are far above currently used marketing resources. Usually, wineries spend 5%-10% of their budgets for marketing activities. Bulgarian Vine and Wine Chamber has already started to educate its members as to how better access future funds. Most wineries declared an interest to use the new opportunity for exports of quality wines to Russia and some Asian countries (Japan, China, Korea).

**Domestic support**

In late July, the MinAg announced the first subsidy program for the wine sector under "Restructuring and conversion of vineyards" as a part of market support policies, at a value of 6.2 million Euro. In August, the Payment Agency began to accept applications based on newly approved regulation (Decree#10, Official Gazette of August 3). Bulgaria lost a portion of wine year funds for 2006/2007 (August 1, 2006-July 31, 2007) due to some bureaucratic delays, and requested a revision in support terms for this year. On June 29, Brussels agreed

to extend the implementation period for wine support and investment payments until the end of the fiscal year, October 15, 2007. Significantly shorter period of the program (less than 3 months) led to a government decision that only three types of projects will be financed, as follows: construction of fences against wild animals; construction of anti-erosion facilities; and reconstruction of existent terraces. Investors applied for 50% subsidy on the investment. In August, the Paying Agency approved the first 14 projects for 750,000 Euro and a subsidy of 371,000 Euro. The budget for 2007/2008 under this wine sector program is 22 million Euro.

### **Grapes supply**

#### **Grapes supply in 2007**

This year (2007), Bulgaria enjoyed a very good quality grape crop, with high sugar content (from 18% to 23.5%-24%), thanks to dry and warm weather. Favorable climate prevented the spread of diseases and pests. Some farmers estimated the best quality for the last 4 years. Although the heat damaged yields in certain areas, producers got quality premiums, and higher average yields. Some farmers reported 6.0 MT/HA to 8.0 MT/HA yields compared to around 4.0 MT/HA in 2006. Farm groups expect total production at 450,000 MT - 500,000 MT or significantly higher than in 2006. Harvest started earlier, at the end of August.

For the first time for the last 15 years, white varieties could be purchased at ex-farm prices equal or higher than those for red varieties, especially for Chardone and Muskat. Ex-farm prices averaged 0.30 - 0.32 Euro/kilogram (reaching 0.55 Euro/kilo for Traminer) for white varieties, and 0.22-0.25 Euro/kilogram for red varieties (Merlot, Cabernet). Main reason for this price change was higher than usual supply of red varieties. Most newly planted vineyards are mainly of red varieties and yielded for the first time in 2007. Demand for white varieties was high due to shorter supply and the use for production of traditional local brandy (rakia).

Wine industry plans to purchase 30,000 MT-40,000 MT more grapes in 2007 compared to 2006 (total about 300,000 MT) and produce 5% to 10%% more wine, due to good export demand and stable and growing local market.

#### **Grapes supply in 2006**

Note: The statistical data in this section is based on the official MinAg statistical publication (Bulletin #106, 2007). According to accepted methodology, small parcels of vineyards below 0.1 HA and not maintained/abandoned vineyards are not counted since this production, if any, is insignificant.

In 2006, total harvested vineyard area in Bulgaria was 68,000 HA and grapes production reached 336,000 MT (final official data). The number of vineyards farmers in 2006 was 73,280 with a total registered area of 135,760 HA.

Crop area: As of end-December 2006, vine varieties were grown on 136,000 HA of which 3,800 HA (3%) were young, non yielding plantings. Table grapes varieties were grown on only 9,100 HA (6.6%) of which 4% were young, not producing plantings. Out of this registered area, de facto 85,320 HA were cultivated and yielded grapes. The location of major production areas remained stable, concentrated in South Bulgaria: 36% of all vineyards were in Central South Bulgaria, followed by 30% in South East region and 13% in North Central.

Red varieties remained dominant in production and their share in harvested areas was much higher. Overall, out of total harvested vineyards, 63.4% were red varieties, 32.1% white varieties and 4.5% table grapes varieties (Tables #2,5).

In CY05/06, 80% of total vineyards area was harvested. Harvested areas declined significantly compared to 2005, by 15%. The reduction in harvesting of table grapes was higher, 24% compared to 2005, especially in South Central region (Table #1).

Yields: Average yields in 2006 were about 47% higher than in 2005, mainly due to favorable weather conditions, the highest yield was recorded in South West region, 6.4 MT/HA. The average yield for vine varieties was 4.5 MT/HA, and 4.38 MT/HA for table grapes varieties.

Production: Grapes production from vineyards in 2006 reached 307,200 MT which was a 25% growth over 2005 due to higher average yield. Out of this production, 95.5% were vine varieties and 4.5% table grape varieties. In addition, 29,000 MT grapes were produced from trellis vine, which is used mainly for on-farm, home consumption. Thus total grapes production in 2006 was 336,128 MT. South Central and South East regions accounted for 71% of total supply.

### **Utilization of grapes**

Out of total grapes, the majority was processed into wine, 304,000 MT or 90%. Fresh consumption was 32,000 MT or 10%.

In 2006, there was a significant increase in the volume of grapes processed into wine at commercial manufacturers, total 256,000 MT, or 17% more than in 2005 (Table #6). This represented 84% of all grapes used for wine in 2006, or lower compared to 89% in 2005. Out of total processed grapes, about 20,000 MT were used for processing into quality wines.

On-farm wine and spirits production remained high in absolute volume, 49,000 MT of grapes in 2006 vs. 27,000 MT in 2005; and as a relative share, 16% of all processed grapes into wine in 2006 vs. 11% in 2005. Most of these grapes were used for production of wine (92%), and about 7% was used for making of traditional local brandy (rakia).

The still significant levels of grape usage for home, on-farm wine and spirits manufacturing, causes a lot of debates among wine and spirits industries. Many industry players think that home wine actually reaches commercial channels (small hotels and restaurants in rural areas) but the lack of the quality and taxation control stimulates the gray sector. The problem is significant, especially with the excise taxes for spirits. Many industry players disagree with the official statistics and estimate local spirits (rakia) production at a higher volume. Nevertheless, commercial manufacturers have to compete unfairly with the gray suppliers who offer cheap and questionable quality product. See Table #12.

### **Wine manufacturing and trade**

Wine production in 2006 increased stimulated by the good supply of raw materials and market demand. Total wine manufactured at commercial wineries was 1,712,051 hectoliters, and total wine production including home, on-farm output was 1,756,958 hectoliters or a growth of 11% over 2005 (Table #3, 7). Production of quality wines increased 36.5% but remained low at 7.4% of total wines.

Currently, average production costs of a bottle of medium quality wine is about 0.75 Euro/bottle (experts estimate, excluding transportation and marketing expenses, and

margins) which includes 0.30 Euro for grapes, 0.35 Euro for bottling and labeling, and 0.10 Euro other expenses.

## Trade

### Exports

Out of total wine output 65% or 1,122,428 hectoliters were exported. This represented a 1.72% decline compared to 2005, due to reduced exports of bulk wines. In total exports, bottled wines accounted for 81%, followed by bulk wines, 18% and sparkling wines, less than 1%.

Bottled wines exports in 2006 were 909,583 hectoliters or only 2% more than in 2005. These figures caused serious concern in the wine industry since exports to all destinations with the exception of Russia have declined. This trend was seen for all EU countries including key export market such as Poland (-6%), UK (-13%), Germany (-10%) and Scandinavian countries. A growth was reported only for Russia (8%). See Table #8.

Exports to the EU market in 2006 were 335,400 hectoliters of which the largest were the sales to Poland, 180,000 hectoliters, followed by Germany and UK.

The most traditional export market for local wines is Russia (see BU7012). In 2006, Bulgaria exported to Russia 72,349 thousand liters of wine of which 58,544 thousand liters bottled wine. Thus, Russia accounted for 64% of total Bulgarian wine exports. According to industry sources, quality wines accounted for not more than 8%-12% of these exports as dominating were less expensive wines. In 2007 (January-April), wine exports to Russia grew 20% vs. 2006 and until the end of the year Bulgaria may rank among the top wine exporters to the Russian market, especially of lower priced wines. To a large extent, Bulgaria benefited from Russian ban on imports of Moldova and Georgian wines which were competing in the same category.

In July, the wine industry and government established a special interagency working group to support wine exports to the Russian market. The group will deal with issues such as trade marks, licensing, certification, legislation, logistics etc.

Bulk wines exports in 2006 were 206,210 hectoliters or 15% less than in 2005. Similar to bottled exports, Russia had a leading position, although these export had a negative 10% growth.

Bulgarian exports within EU quotas in 2006 were as follows: bottled wines- 27.2%; bulk wines – 49.4%; and sparkling wines – 98.1%.

According to industry sources, many wineries are still unclear on their export orientation. The high potential of the Russian market motivates manufacturing of bigger volume but of relatively lower quality inexpensive wines. It continues to stimulate imports of cheap bulk wine from Moldova and Macedonia. Reportedly, there is some manufacturing of questionable quality and/or counterfeit wine for the Russian market. Other export challenges are related to deficit of a diversity of glass bottles (often imported from Romania, Greece, and Moldova); bureaucratic delays and/or inconsistency of import requests. Accordingly the average export price of Bulgarian wines for this market has slowly decreased. Some experts have already voiced their concerns that the temptation to sell to Russia under the current pattern (higher volumes but at a higher risk) with no export diversification, may result in sudden foreign government restrictions, either for political reasons or due to declining quality and counterfeit cases, and completely lost export markets. On the other hand, the EU market is

a challenge with its higher quality requirements, expensive marketing, smaller volume of sales but at the same time offering a promising stability and growing margins.

## **Imports**

Wine imports of 2006 were 123,695 hectoliters or 165% more than in 2005. Imports of bulk wines were leading with 92% share, followed by bottled wines, 8%. Major exports of bulk wines were Macedonia, Moldova, Chile, Spain and Romania. Bottled wines were imported from Italy and France. See Tables #10, 11.

## **Local market**

About 35% of produced wines in 2006 were sold on the Bulgarian market.

Local market is split in low-end product (up to 2 Euro/bottle), medium category (2.50-4.0 Euro/bottle), high-end wines (4.0-6.0 Euro/bottle) and premium wines (over 6.0 Euro/bottle). Domestic output of quality wines is still very limited, 7.4% in 2006, which stimulates imports of comparable or higher quality product from USA and other New World countries to Bulgaria in recent years (see BU7012). Experts estimate sales of low quality wines (up to 1.0 Euro/liter) at 55% of all sales.

Estimates for total wine sales (2006) on the domestic market vary, from 35 million liters (source: local wineries) to 40 million liters (source: marketing agencies). Euromonitor estimates the growth in wine sales for the first 3 months of 2007 at 19.1% compared to 2006 with a prospect to reach 50 million liters for the year, vs. 48.7 million liters and 47 million liters in 2006 and 2005, respectively. Local players expect overall sales growth in 2007 at 7%-8%. In value, off trade market is estimated at 112 million Euro (2006).

The major domestic wine market issue, however, remains sales of counterfeit wines and still not stringent government control on quality, safety and labeling. Experts hope that the new EU wine reform will favorably affect local market and will help eliminate supply of low quality product. This in turn will sustain trade in higher quality wines, both local and imported.



**Table 1. Total vineyards area and share of harvested area by regions in Bulgaria, 2006**

<b>Total vineyards area and share of harvested area by regions in Bulgaria, 2006</b>		
Regions	Total area, HA	Percent of harvested area
North West	5,637	85.3
North Central	10,996	77.7
North East	8,060	74.1
South East	25,914	75.7
South Central	30,640	85.5
South West	4,073	81.0
Total	85,320	80.2
Source: MinAg published statistics		

**Table 2. Total vineyards area and share of harvested area by varieties and regions in Bulgaria, 2006**

<b>Total vineyards area and share of harvested area by varieties and regions in Bulgaria, 2006</b>							
Regions	Red varieties		White varieties		Table grapes		Total harvested, HA
	Planted area, HA	% of harvested area	Planted area, HA	% of harvested area	Planted area, HA	% of harvested area	
North West	3,815	79.4	792	16.5	200	4.1	4,807
North Central	6,093	71.4	2,111	24.7	335	3.9	8,539
North East	1,682	28.2	3,982	66.7	306	5.1	5,970
South East	9,057	46.2	9,897	50.4	666	3.4	19,620
South Central	20,004	76.4	4,808	18.4	1,381	5.2	26,193
South West	2,723	82.6	366	11.1	208	6.3	3,297
Total	43,374	63.4	21,956	32.1	3,096	4.5	68,426

**Table 3. Wine production at commercial wineries in major production regions, hectoliters, 2006**

	<b>Wine production at commercial wineries in major production regions, in hectoliters, 2006</b>						
Wines	North West	North Central	North East	South East	South Central	South West	Total Bulgaria
Table and regional wines							1,571,136
- Red and rose wine	36,998	78,976	202,662	267,616	253,064	63,038	902,354
- White wine	29,032	64,624	183,883	250,085	120,161	20,997	668,782
Quality wines							126,980
- Red and rose	3,892	3,133	7,608	34,105	36,872	5,919	91,529
- White	517	-	21,105	13,660	169	-	35,451
Total sparkling, and specialty wines							13,935
- Red and rose wine	-	-	19	3,461	50	-	3,530
- White	-	-	33	3,258	7,085	29	10,405
Total wines							<b>1,712,051</b>
- Red and rose	40,890	82,109	210,289	305,182	289,986	68,957	997,413
-White	29,549	64,624	205,021	267,003	127,415	21,026	714,638
Total wine must	-	9	783	19,417	502	300	21,011
Total wine and grape must	<b>1,733,062 hectoliters</b>						
Total wine and must including home production	<b>1,756,958 hectoliters</b>						

**Table 4. Vine grapes purchased by wineries as of October 17, 2007.**

Area, region	Grapes, MT
Montana	4,061
Pleven	23,159
Rousse	16,557
Varna	9,335
Bourgas	43,042
Sliven	26,992
Plovdiv	28,434
Chaskovo	13,606
Blagoevgrad	3,691
<b>Total</b>	<b>168,881</b>

**Table 5. Variety structure in 2006**

Variety	Area, HA	Percent
Pamid	22,160	16
Cabernet Sovinion	19,516	14
Rkatziteli	19,320	14
Merlot	18,975	14
Dimiat	8,987	7
Misket Red	7,815	6
Other	51,456	29
Total	135,760	100
Source: Vine and Wines Chamber		

**Table 6. Grapes processed into wine, 2003-2006**

Years	Quantity, MT
2003	222,670
2004	208,151
2005	217,758
2006	255,668
Source: Vine and Wines Chamber	

**Table 7. Wine production 2002-2006, hectoliters**

	2002	2003	2004	2005	2006
Total wines	1,036,420	1,533,323	1,417,467	1,548,467	1,712,050
Table wines	602,795	867,519	943,338	1,291,284	1,273,651
Regional wines	250,895	313,747	260,844	152,428	297,484
Quality wines	188,379	349,111	206,948	93,012	126,980
Total must	11,001	11,799	13,434	13,648	21,010
Source: Vine and Wines Chamber					

**Table 8. Exports of bottled wines, 2005-2006, hectoliters**

Destination	2005	2006	Change, in percent
Russia	539,335	585,442	8%
Poland	192,036	182,004	-6%
UK	26,471	23,381	-13%
Czech Republic	23,087	21,836	-6%
Lithuania	14,809	12,097	-22%
Germany	13,478	12,284	-10%
Sweden	13,087	11,242	-16%
Latvia	11,503	87,316	-32%
Estonia	7,381	4,792	-54%
Mongolia	5,783	4,553	-27%
Total	889,644	909,582	2%

Source: Ministry of Agriculture

**Table 9. Exports of bulk wines, 2005-2006, hectoliters**

Destination	2005	2006	Change, in percent
Russia	151,187	138,043	-9%
Germany	35,551	27,601	-22%
Japan	14,781	11,744	-21%
UK	13,030	6,522	-50%
Sweden	9,353	11,238	20%
France	5,095	2,939	-43%
Poland	3,668	1,941	-48%
Lithuania	2,407	479	-80%
Belgium	2,107	2,216	5%
Finland	1,591	420	-74%
Total	242,112	206,209	-15%

Source: Ministry of Agriculture

**Table 10. Wine trade balance, 2001-2006, thousand Euro**

	2001	2002	2003	2004	2005	2006
Exports	60,021	56,050	59,740	64,796	75,128	77,395
Imports	1,035	1,727	1,190	1,321	3,235	7,897
Balance	58,986	54,323	58,550	63,475	71,893	69,498

Source: Ministry of Agriculture

**Table 11. Imports of wine, 2004-2006, hectoliters**

	2004	2005	2006
Total	7,561	46,653	123,695
Bulk	2,782	41,866	113,374
Bottled	3,485	4,261	9,551
Sparkling	1,294	526	770

Source: Ministry of Agriculture

**Table 12. Manufacturing of spirits, 2002-2006, hectoliters**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Rakia	91,527	77,542	122,672	82,503	48,652
Brandy	17,806	10,268	5,896	3,377	6,431
Other spirits	132,075	193,473	136,705	186,468	69,006
Total spirits	468,375	283,133	483,108	273,145	124,089
Source: Ministry of Economy					